UNITED WHELAN
CORPORATION

ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 1966

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CORPORATION FILE

Our 64th Year

United Whelan Corporation

Executive Offices: 1615 Northern Blvd., Manhasset, L.I., New York — (516) MA 7-9200

Board of Directors: (Seated, left to right) Martin S. Ackerman, William G. Hobbs, Jr., Samuel Shapiro, Charles Zohlman. (Standing) Lester B. Samit, Alan S. Salny

DIRECTORS

MARTIN S. ACKERMAN, *Chairman*
WILLIAM G. HOBBS, JR.
ALAN S. SALNY
LESTER B. SAMIT
SAMUEL SHAPIRO
CHARLES ZOHLMAN

OFFICERS

MARTIN S. ACKERMAN, *President*
LESTER B. SAMIT, *Secretary-Treasurer*
CHARLES ZOHLMAN, *Vice President*
LAVERE G. LUND, *Director, Sales and Marketing*
PETER W. HOLLEMAN, *Director, Budgets, Planning and Controls*
MARVIN S. CHANKO, *Controller*
MORTON E. DAVID, *General Counsel*
ROBERT CRANE, *President*, Color Service Company, Inc.
O. GERALD DURBON, *President*, Studer's Photos, Inc.
HAROLD RICHARDS, *President*, Equality Plastics, Inc.
WILLIAM GEIGER, *President*, Perfect Photo West
ROBERT S. GOLDFIELD, *President*, Perfect Photo East
LEONARD S. SCHWARTZ, *Executive Vice President*, Hudson National, Inc.

AUDITORS: Touche, Ross, Bailey & Smart, New York City

GENERAL COUNSEL: Cooper, Ostrin, De Varco & Ackerman, New York City

TRANSFER AGENTS: Marine Midland Grace Trust Company, New York City
Fidelity-Philadelphia Trust Company, Philadelphia

REGISTRARS: Chemical Bank New York Trust Company, New York City
Provident National Bank, Philadelphia

THE UNITED WHELAN

ORGANIZATION

Today's United Whelan is engaged in photography, mail order and general merchandise distribution. As this report indicates, there is a strong mutuality of interest among the Company's divisions, all of which were acquired in 1966.

The Company's divisions are engaged in amateur photo processing, professional color motion picture processing, retail photographic sales, mail order sales of vitamins, drugs, health-aids, prescriptions and toiletries and the wholesale distribution of imported products. They are run on an autonomous basis by managers experienced in the fields of the particular division. Corporate control is maintained through a highly efficient system utilizing computers, profit planning, exception reporting and responsibility accounting. Daily, weekly and monthly reports enable the division heads and top management and its corporate staff to keep abreast of developments in each division on a current basis. Management is therefore always alert to problems as they develop and to the opportunities present in each division.

The Company's headquarters and corporate advisory staff assist the divisions in financial, marketing, planning and control and legal areas and thereby butress the divisions' ability to realize on opportunities in their fields. Investments in new facilities, modernization and expansion of existing facilities, new product introductions and penetration of new marketing areas are planned and evaluated jointly by the divisions' managers and corporate advisory staff to enhance the probability of optimum decisions on the profitability of each new venture.

The United Whelan organization is therefore geared to dynamic internal growth coupled with a demonstrated ability to act decisively and wisely on external expansion through acquisition. In 1967 the Company will consolidate its gains and prepare its divisions for increased profitability, laying the groundwork for further expansion in future years.

Financial Highlights

	1966	1965*
Net Sales	**$45,316,000§**	$31,373,000§
Net Income (Loss)	**$ 1,955,000**	($2,621,000)
Working Capital	**$ 7,559,000**	$ 6,583,000
Net Worth	**$17,566,000**	$14,396,000
Income Per Share†	**$1.70**	—

* Restated as per note 1 of notes to financial statements.

† On 1,144,097 shares outstanding at December 31, 1966.

§ Excludes sales of liquidated retail units as per note 2 of notes to financial statements.

To the Shareholders:

MARTIN S. ACKERMAN

The 1966 fiscal year was a year of great progress at Whelan. The Company achieved record earnings and substantially improved its financial position as the Financial Highlights indicate.

History

Organized in 1903, the Company has had a long and rather spotty history. The Company assumed its present form as a result of the consolidation of United Cigar Stores of America, Inc. and Whelan Drug Stores Company. In the late 1950's, the Company expanded its operations into the retail discount field. The results of this expansion were most disappointing. Too late and too little, and always a little behind the times, Whelan never seemed to make the grade as a profitable company.

Changes in Management

Upon assuming control in 1965, new management quickly determined that an agressive approach to earnings and profits was essential, and that the Company should find profitable areas into which to expand. The acquisitions of the businesses of Perfect Photo, Inc., Hudson National, Inc., and Equality Plastics, Inc., have accomplished this goal.

Operations

All operations of the Company are now on a profitable basis. Your Company today is in a strong financial position, and, with its interests in photography, mail order and general distribution, it has thrust itself into three new growth fields. Unlike the Company's previous industry entries, the Company is a leader in each of these fields.

Photographic Divisions

A pioneer in amateur photofinishing, the Company's Perfect Photo East under the leadership of Robert S. Goldfield and Perfect Photo West Divisions under the helm of William Geiger are dominant factors in their areas. The Company services some of the outstanding retail outlets in the United States with the most progressive programs in the amateur photofinishing field. The Company's Studer's retail photographic division under the brilliant leadership of O. Gerald Durbon is among the best operations of its kind in the United States. Concentrating its expansion in Texas and California, this division is growing in two rapidly expanding markets. The Company's professional photographic processing division, Color Service Company, which is led by Robert Crane, is the nation's largest non-entertainment professional color motion picture processing laboratory. It is currently housed in a brand-new, multi-million dollar facility in the heart of New York City. These divisions, we are convinced, will contribute greatly to the Company's overall profits in the future.

Corporate Advisory Staff

(Left to right)

LESTER B. SAMIT
Secretary-Treasurer

MORTON E. DAVID
General Counsel

PETER W. HOLLEMAN
Director, Planning and Controls

LAVERE G. LUND
Director, Sales and Marketing

MARVIN S. CHANKO
Controller

Mail Order Division

Your Company's entry into the mail order field has been accomplished by the acquisition of the best operation of its kind in the United States. Hudson National has not only pioneered in the mail order merchandising of vitamins, drugs and toiletry products, but has been alert to change its pattern and to move into general merchandise when business conditions indicated that the growth potential in vitamin sales was limited. Hudson, blessed with the forthright leadership of Leonard S. Schwartz, ably assisted by Seymour S. Braimon and Edmond Greenberger has built an outstanding record during the year 1966. Hudson's facilities are outstandingly efficient — fully equipped to give customers rapid and accurate service, thus retaining customer accounts and maintaining profitability. This division, we are confident, will constitute one of the Company's most dynamic areas of expansion as new programs are initiated and mature, and initial investments in new product introductions are made to pay. The Company's mail order operations in Canada have illustrated our ability to enter a new area and develop a full range mail order program that is almost immediately profitable.

General Merchandise Distribution Division

The "sleeper" and most surprising of our operations is the Equality Division. General merchandise sales of a wide range of products, while a goal of the Company for years through its Agency Division, really never got off the ground until the acquisition of Equality. This division, under the able direction of its President, Harold Richards, has nearly doubled its sales in each of the last three years. In 1967, the facilities of Equality will be expanded and improved. In the latter part of 1966, Equality entered the California market with a first-class warehouse facility, and in early 1967, it will move into new and enlarged showroom facilities in the Empire State Building. The consolidation of its two New York warehouses into a superstructure at the Port Authority in Port Newark, New Jersey, is well underway. These moves will enable Equality to increase sales and improve profit margins this year.

The Future

We are quite proud of the fact that in 1966 United Whelan Corporation earned $1.70 per share.

In 1966 we were also able to recast our long term debt so that anticipated cash flow in the coming years will be more than adequate to service debt requirements and provide sufficient funds for fixed asset growth and receivable and inventory build-ups. Relations with our banks are on a sound footing. The Company has available more than adequate short term bank lines which are not being used for operations presently. They are available to finance further expansion.

We are pleased that we were able to declare the 3% stock dividend which was paid on March 1, 1967. It represents the first dividend payment by the Company since January 1963.

The Board of Directors joins me in expressing appreciation to the employees of our Company for their loyalty, foresight and hard work during 1966. We are confident that their continued efforts on behalf of United Whelan will redound to their benefit and to the benefit of the Company and its stockholders.

Respectfully,

Chairman of the Board
and President

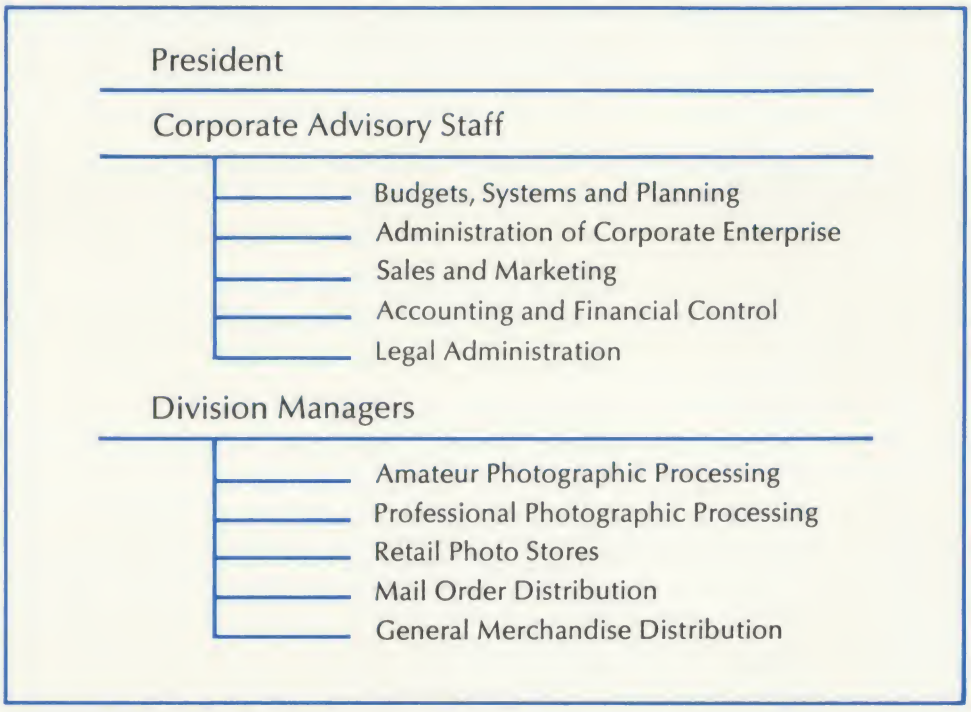
Organizing for Results

The pace of today's economy, with its ever expanding maze of government regulation, rapidity of technological innovation, radical departures in selling and marketing techniques and competition-induced pressure on profit margins, presents a continuing challenge to management attempting to maximize profitable growth.

United Whelan is meeting the challenge with a management structure organized for results. An astute and aggressive corporate advisory staff, working under and directly responsible to the President, cooperates with the highly experienced divisional managers to establish and execute total enterprise and divisional goals and objectives.

Complete budgetary forecasts of sales, expenses and profits are prepared for each division and the corporate entity based upon an engineered standard cost system which is administered by the financial and planning and control departments. The system is tied together on a nationwide basis by the Company's IBM System 360-30 computer. The corporate advisory staff assists the divisional managers in other financial areas such as cash flow forecasting and in non-financial areas such as sales, marketing, inventory control, advertising, new product development, real estate and legal matters.

It is believed that the Company can achieve its objectives of internal growth and expansion by acquisition through its sound, dynamic management system.



ROBERT CRANE
Color Service Company, Inc.

O. GERALD DURBON
Studer's Photos, Inc.

HAROLD RICHARDS
Equality Plastics, Inc.

WILLIAM GEIGER
Perfect Photo West

ROBERT S. GOLDFIELD
Perfect Photo East

LEONARD S. SCHWARTZ
Hudson National, Inc.

Executive Offices

1615 Northern Blvd., Manhasset, L.I., New York

Every day millions of units of data on sales, production, material usage, purchases, inventory, labor input, receipts and a myriad of other details concerning the operation of the Company's divisions is transmitted to the Executive Offices. The mass of data is organized into meaningful reports by the Company's computer department utilizing an IBM 360-30 computer and highly sophisticated programs developed by Company personnel. The department handles billings, statements and produces accounts receivable, payable reports, and reports on overall profitability and the efficiency of labor and material usage throughout the Company.

These reports, together with detailed studies of pricing and sales are used by the corporate advisory staff and its personnel in accounting, payables, inventory control and taxation to guide the Company to increasing sales and profitability.

Keypunch Input

Programming

Computer Operations

RICHARD BRIGDEN
Computer Operations

STUART SCHWAMM
Inventory Control

Accounts Payable

Accounting

SEYMOUR SPEIGEL
Taxation

Amateur Photographic Processing

OPERATIONS

JAMES PIO
Philadelphia

MARTIN DURETZ
Philadelphia

WALTER E. HENDERSON
Spokane

GEORGE HANNAFORD
Los Angeles

ALVIN M. HAUSER
Phoenix

CLYDE W. HINSHAW
Albany, Oregon

JACK BOBINSKY
Chicago

LONNIE BROOME
Charlotte, N.C.

ROBERT NUBBYMEYER
Chicago

LEE WILLIAMSON
Portland, Oregon

WILLIAM ROBERTS
Chicago

JAMES WALKER
Seattle

JOSEPH HUNTER
Los Angeles

JAMES LARRIMORE
Pittsburgh

MERLYN D. COATS
Bakersfield, California

SALES

NORMAN MANN
Philadelphia

STEPHEN FRANTZ
Philadelphia

AL BOWLES
Los Angeles

TEX THOMAS
Los Angeles

BERNARD PADORR
Chicago

DIVISION CONTROLLERS

LEONARD POSNACK
Philadelphia

JACK RUSSELL
Los Angeles

SERVICES

Black and white
Kodacolor
Kodachrome I & II
8 mm., 16 mm.,
super 8 movies
35 mm. & 126 slides
Ektachrome
Anscochrome
Moviechrome
Gevaert
Minolta Subminiatures
Minox Subminiatures
School pictures

PLANT LOCATIONS

Philadelphia, Pennsylvania (2)
Pittsburgh, Pennsylvania
Charlotte, North Carolina
Chicago, Illinois
San Antonio, Texas

JAMES ADAMS
Philadelphia

Chrome processing plant, Philadelphia

The total value of photographic goods and services in the United States has risen approximately 18% per year for the last three years. The Company's amateur photographic divisions, Perfect Photo East and Perfect Photo West, are substantial factors in the industry, dominating three of the four principal areas in which they are located. With their improved working capital, the divisions are therefore in an excellent position to participate in the industry's growth after three years of improvements in operating efficiency.

Photofinishing sales, the division's principal business, are in a strong uptrend due to increased picture taking resulting from instant-load, easy to use cameras. In addition, the trend to increased use of color film adds significantly to the total dollar volume of photofinishing.

The Perfect Photo Divisions, managed by their Presidents, Robert S. Goldfield in the East and William Geiger in the West, strive to provide the customer with the highest quality in photofinishing for the amateur. Perfect Photo's 4" x 4" print which is 50% larger than the traditional "Jumbo" size and sells at the same price has garnered many large accounts for the division.

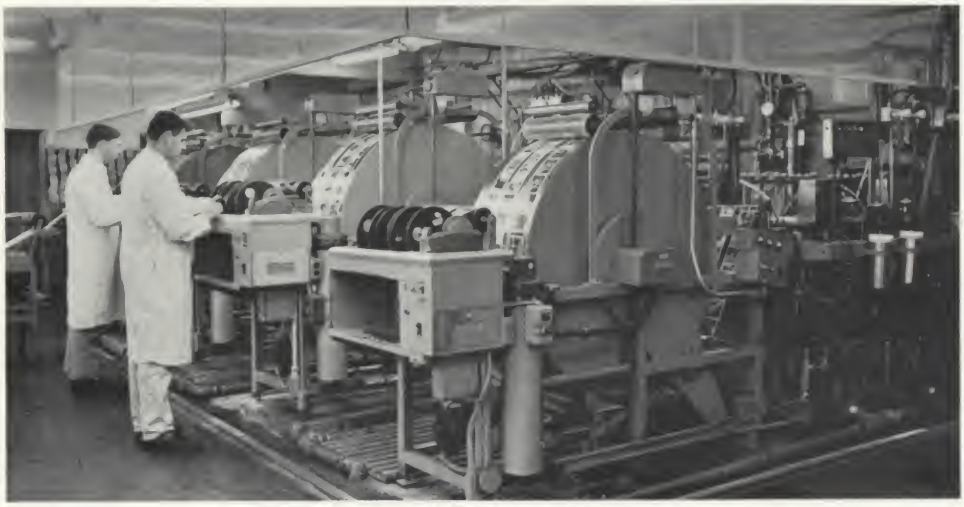
This division serves many of the finest retail chain, department, drug and discount stores. Its distribution system is based upon the requirement of daily stops to pick up and deliver film. The distribution of Hudson products through the Perfect Photo system is being tested through hundreds of drug stores in the Philadelphia-Delaware Valley area. Results to date have been excellent and an expansion of retail distribution of Hudson and Equality products is envisioned for 1967.

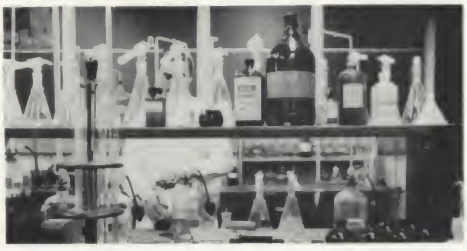
In short, Perfect Photo East and West are leading companies poised for vigorous growth in a dynamic and profitable industry. Their vast distribution system serving tens of thousands of stores daily stands ready to be exploited. Management is confident that these divisions will make further substantial contributions to the earnings of United Whelan Corporation.

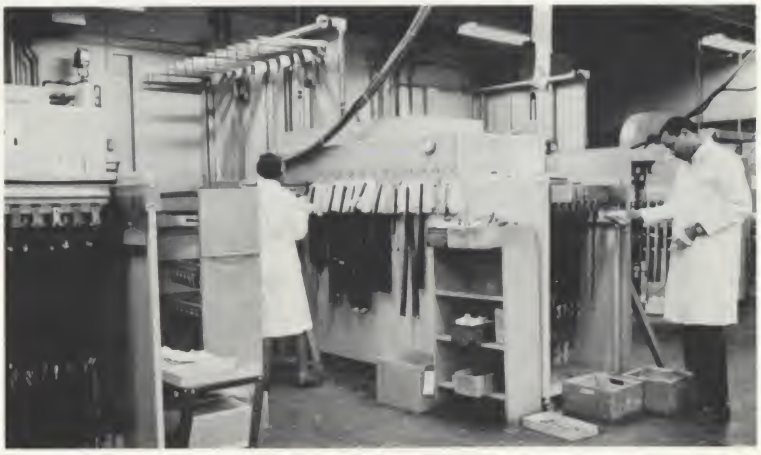
Color Balance Control

Coating being applied to finished prints

Phoenix, Arizona
Los Angeles, California
Bakersfield, California
Portland, Oregon
Albany, Oregon
Seattle, Washington
Spokane, Washington







Color print and transparency printing requires meticulous quality control from original sorting to the shipment of the finished product.

Mail Order Distribution

During 1966 Hudson National with its outstanding leadership under Leonard S. Schwartz, Executive Vice President, embarked on a vigorous campaign of new product line introductions and expansion of existing product lines. In the household drug, toiletry, health appliance, pet products, convalescent aid and first aid fields, more than 124 new products were introduced.

A mail order prescription service encompassing over 1,000 items was initiated bringing consumers significant cost savings and efficient service on repeat-use, non-emergency prescriptions. This service, like Hudson's mail order film processing service, is offered in areas not serviced by the Perfect Photo Divisions. The results of Hudson's entry into film processing and prescriptions by mail have been most gratifying.

Mail order film processing in which the Perfect Photo Divisions have been engaged for many years has always been a highly profitable business. The Company is able to saturate areas where it does not have authorized dealers with mail order advertising. The film is processed at the most convenient plant, the middle-man's profit is eliminated, the processing is scheduled for the slack part of the week (Thursday and Friday) thus creating a more even work flow and the film is delivered to the customer by the least expensive means, the mails. The Company presently does nearly $3,000,000 per year in mail order processing and the mail fulfillment is handled by the Hudson Division's extremely successful methods.

In 1966, Hudson turned an important corner in its emphasis of new product lines related to but not reliant upon vitamin sales. Vitamins, although the single most important line distributed by Hudson, will in the future represent a decreasing percentage of this Division's sales as total sales continue to climb.

Hudson also began marketing products of the Equality-General Merchandise Division with outstanding success. "Vitacare" family health insurance sold through the mail has just been introduced and promises to be an area of future growth for the division.

SEYMOUR BRAIMON
Vice President, Sales and Marketing

ED GREENBERGER
Vice President, Administration

LAWRENCE STERN
Divisional Controller

THOMAS SPENCE
General Manager,
Hudnatcan, Ltd., Canada

Computer directed mail procedures, pioneered at Hudson, are an important element in customer service and cost control.

PHOTO SERVICE

HERE'S THE NEW

OCTOBER 1966

HUDSON CATALOG

OF VITAMINS, DRUGS, TOILETRIES, 'FOODMATES'®

Volume 1 Number 2

The Flash!

COMPARE AND SAVE

ASK YOUR JEWEL MAN FOR ADDITIONAL AU IZED SAFETY MAILING ENVELOPES

JEWEL COLOR PHOTOS

Yo odak's $12.95 value Instamatic Camera plus Free Kodacolor Film for only $5.00

HUDSON'S BIG CASH BONUS COUPO

Opportunity Knocks A

Back by popular request—Hudson's 'Spend-Lik Coupons—an exciting way to cut your cost of l now and March 15, 1967, you automatically re Bonus Coupons with every order of Hudson's vita of $2.50 or more (see next page). Use them betw

NON TRANSFERABLE

Save This Va HUDSON BONU

The value of this Bonus Coupon is indicated above any HUDSON purchase of $3.00 or more. For proper credit it enclosed with your order.

HUDSON VITAMIN PRODUCTS

Herbert Brody, Pres.

Authorized Signature

All Hudson Bonus Coupons Expire Dec. 31, 1966

NON TRANSFERABLE

Film Processing Only

Film Replacement Plan

FOR FASTEST MAIL TO HUD

4747 N. Broad St.,
2717 N. Lehmann
3030 South Bouleva

Club Program

Prepaid Mailers

FOR THESE P

Hudson Film Servic
89 Seventh Avenue
New York, New York

Hudnatcan, Ltd., the division's Canadian operation has built an important sales base and has proved profitable from the start. In the current year an attempt will be made to blanket the Canadian market with the new programs developed at Hudson.

Hudson is constantly improving customer services which are all important to success in mail order. Since customers do not have the opportunity for face-to-face dealings when the mails are used, it is essential that merchandise be shipped promptly, packaged securely and that refunds are made correctly and expeditiously. Retention of mail order customers is a key to profitable operations because the high cost of customer acquisition must be amortized over a number of orders. Hudson's computer-controlled mail and billing service performs these functions with unerring precision. Hudson pioneered computer directed mail operations and continues to lead the field by improving its computer systems and programs.

Hudson's "Compare and Save" advertising program began appearing in major printed and radio media last year. The format of the program has been changed to induce a purchase in the initial correspondence instead of seeking inquiries for a catalog from prospective customers. This has worked an appreciable reduction in the cost of customer acquisition.

In 1967 as in the past year, Hudson will continue to reduce its costs, improve customer services, introduce new product lines and increase its advertising effectiveness. It is anticipated that these moves will continue Hudson's new pattern of increased sales and profitability.

A key factor in holding the line on mail costs despite rising postal rates is the transshipment by common carrier of large containers for on-the-spot mailing in local zones.

Professional Photographic Processing Color Service

ROBERT CRANE
President

Color Service, under the direction of its hard-driving President, Robert Crane, is a full participant in one of America's fastest growing industries. Color motion picture processing has been growing at a rate estimated to exceed 15% per year on a compound basis and the recent increase in the number of hours of color television broadcasting has gilded the lily for the industry. Color Service's sales quadrupled since 1963 and its earnings have increased six-fold.

As the nation's largest non-entertainment color processor, Color Service is the leader in the fields of education, industrial and government films. It processes educational films for McGraw Hill, the American Cancer Society and the National Council of Churches; films for the United States Air Force and the National Aeronautical and Space Administration; and industrial training and sales films for Chrysler Corporation, General Motors Corporation and Humble Oil & Refining Company.

Located in the heart of New York City, Color Service processes many television programs, such as "The Wonderful World of Golf" and ABC Special Project films. In the last year it has commenced processing feature films such as "Moment of Truth," "La Bonheure," and "Ecco." In addition to developing and printing films, the division at times assists in its financing of production of color motion pictures.

In December, 1966, the division moved to a greatly expanded and completely new laboratory. This new facility operates around the clock. Additional film developing and printing equipment will be added during 1967 as well as expansion to other lab facilities, which will increase capacity by 50%. The facility's equipment is of the latest and fastest types and is organized for extremely rapid customer service. The plant's two theatres and many cutting and editing rooms are available to customers on a 24-hour basis. A computer system is under development which will keep track of each film as it proceeds through the various processing stages as an additional control and customer service mechanism. The system will enhance the division's ability to process a high volume of color television commercials.

SALES STAFF

JOHN P. CURTIN

WILLIAM P. HOWARD

PRODUCTION ADMINISTRATION

ROBERT C. RHEINECK LOUIS PASCUZZI

LEGAL AND FINANCIAL

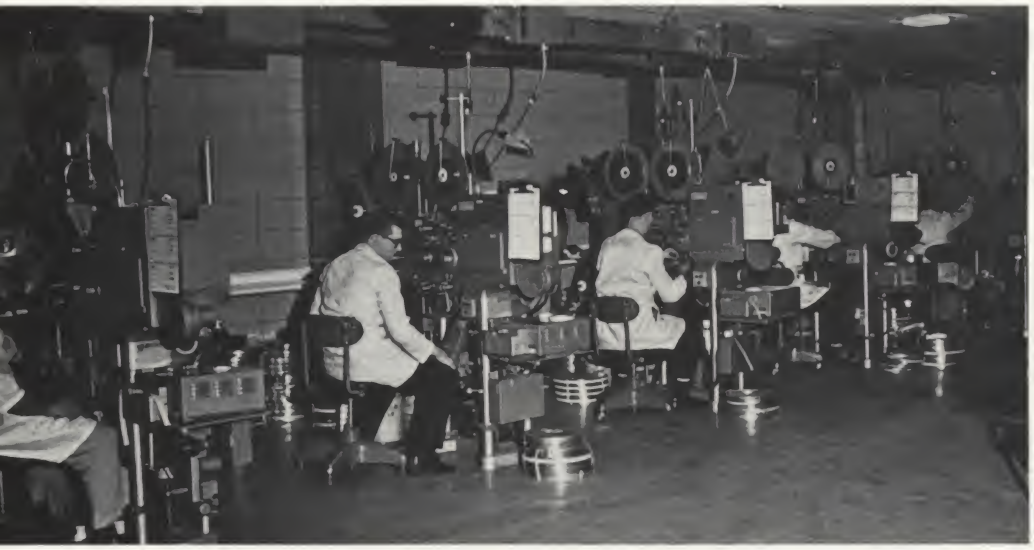
(left to right)
LEONARD I. ACKERMAN
ELLIOTT N. TARNOFSKY
ALBERT M. IVALDI

Color Service's engineers in association with McGraw Hill have developed and are operating the country's only 8mm optical sound processor which places the sound track directly on the film and obviates the necessity for costly magnetic striping. This new process is showing excellent results and promises sharply increased processing of educational films.

For 1967 a 20% sales increase and a 30% increase in earnings have been projected. From its position of leadership in the industry, attained largely on the basis of its earned reputation for the highest quality in color processing, the division is studying the possibility of acquisition of other processors and companies in fields allied to processing.

New laboratory on West 54th Street, New York City.

Attention to detail and the latest in high speed processing, timing, printing and sound equipment are used to produce finished color prints, acknowledged to be the highest quality in the industry.



Retail Photographic Stores

O. GERALD DURBON
President, General Manager

(Below, left to right)

LORENE HORTON
J. D. DOROUGH, JR.
H. J. MAJERUS
SAM SIGILOFF
W. H. PRATT
RALPH GUERRA

WINSTEAD BROS.

PERRY B. MAXSON, JR.

HOBBY CAMERA

MAURICE SPIEGEL

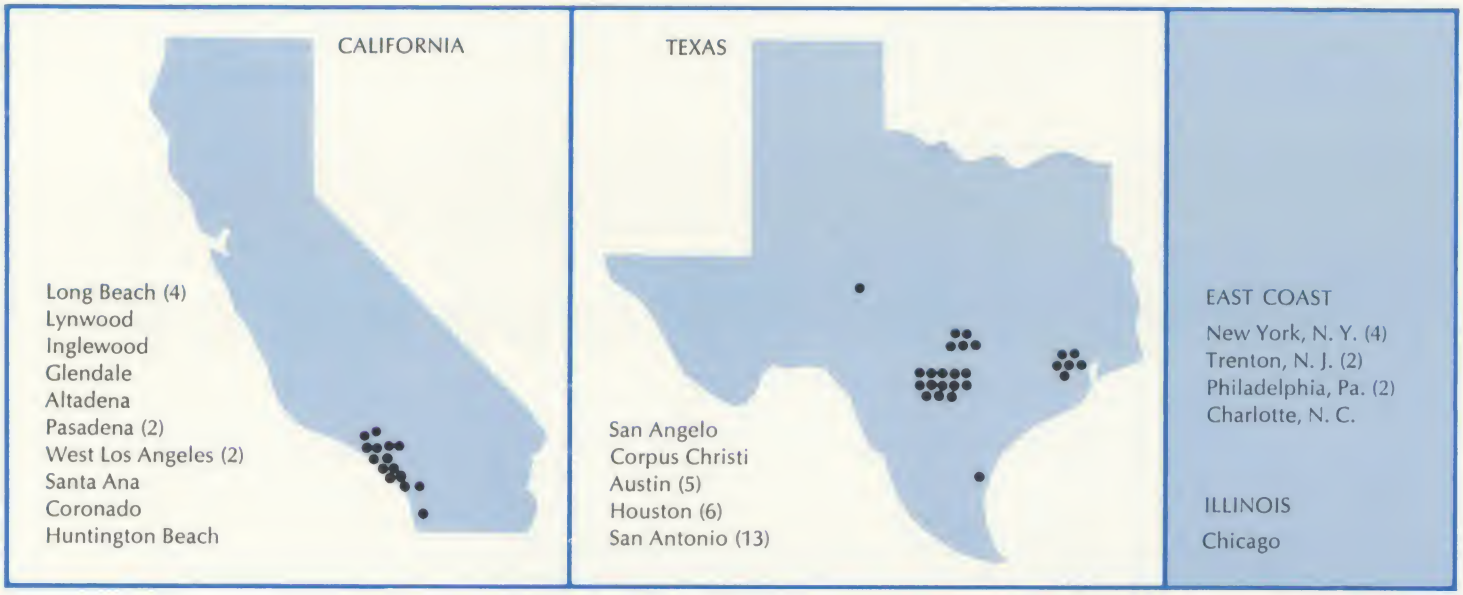
Retail photographic sales is a business in which only a very few companies succeed. It is highly competitive, it usually requires substantial inventories which must be turned frequently to overcome extremely rapid product obsolescence and it is characterized by low profit margins. The Company's Studer's Division, managed by its very capable President, O. Gerald Durbon, has overcome these problems and yields the Company a handsome return on sales and invested capital.

The majority of the stores in the Studer's Division are in free standing units in shopping centers located in the fast growing Texas and California markets and the populous New York and Chicago areas. Many feature a portrait studio operated by regular sales personnel. Every effort is made to keep merchandise sales at less than one-third of total sales. Emphasis is placed on the high profit margin sales of portraits and photofinishing which are processed at the Company's plants closest to the stores. The stores are oriented to the amateur photographer—the average American who takes pictures. This and efficient communication among stores obviates the necessity for maintaining large stocks of expensive cameras and equipment.

The division's "Studer's" (Texas), "Winstead" (California) and "Hobby" (Chicago) stores, although competitive, do not try to meet the lowest prices in their locales. Quality service of cameras and equipment and the highest quality obtainable in photofinishing and portraiture build repeat business from an expanding clientele.

While units are ordinarily opened in areas not directly competitive with authorized dealers of the Perfect Photo Divisions, they are in sufficiently close proximity to plants to permit them to be excellently serviced by careful route scheduling.

The stores also will provide an important outlet for general merchandise imported by the Equality Division.



For each of the last thirty months the division has shown increased sales and profits over the corresponding month of the preceding year. It achieved these dramatic results through growth in existing stores and by adding new stores. The division is expanding on a programmed basis with current plans calling for an increase from 51 to 60 stores by the end of 1968. Stores producing approximately 70% of current sales yield pre-tax profits of 13% on sales. It is the Division's objective to bring all stores to this high level of profitability in the next eighteen months.

STUDERS
FILM FINISHING
PORTRAITS-COPIES
ENLARGEMENTS
SLR CAMERAS

Kodak
Portrait

WINSTEAD CAME

Winstead

General Merchandise Distribution

EQUALITY

HAROLD RICHARDS
President

ALVIN KATZ
Executive Vice President

RELMA D. ORELL
Vice President, Administration

SHEPARD BREWER
Vice President, Sales

STANLEY TASHMAN
Vice President, Sales, Calif.

COURTLAND C. MORELOCK
Vice President, Administration, Calif.

MICHAEL FRIEDMAN
General Manager, Elastics

Equality Plastics is the Company's fast growing division engaged in the wholesale distribution of imported items, some of which are pictured on these pages. Sales have been increasing at a rate limited only by the division's warehousing space and working capital. United Whelan has added materially to the division's operating funds and a new greatly enlarged warehouse will be in full operation on April 1, 1967. Its handsome new showrooms in the Empire State Building should add momentum to the upward thrust of its sales engendered by an underlying increasing demand for imported novelty items. During 1966 the division commenced the distribution of auto safety accessories with excellent results. Management believes that auto safety equipment represents a potentially large market for electronic products imported by Equality from the Far East.

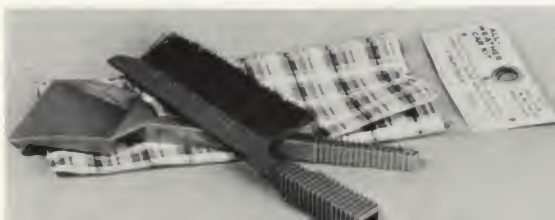
California Sales Office

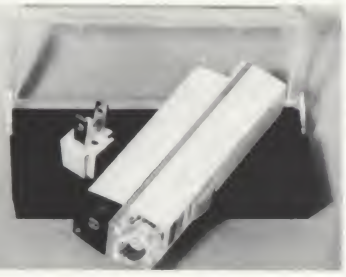
New York City, the traditional home of the industry, will continue to remain Equality's base of operations. However, the opportunity to penetrate the California market with the assistance of Perfect Photo West was seized in mid 1966. From a standing start eight months ago, Equality West is contributing 11% of the division's sales.

The President of Equality, Harold Richards, and the Company's management have planned for 35% per year sales increases in 1967 and 1968.

Elastic Subsidiary

The division's Elastics subsidiary is the country's largest manufacturer and distributor of barbed elastic cords. Although dollar volume of this subsidiary is small, its profit margins are the highest of any entity in the Company. During 1966 this subsidiary enlarged its market share to approximately 70% of total industry sales.





Instant Cartridge Loading
Snap on Flashcube
Takes Color, Black & White Pictures and Color Slides
Just Aim and Shoot
Fully Guaranteed
Made in U.S.A.
"FOR EASY INSTANT PICTURE TAKING"
Kodacolor-X
Perfect 126

Perfect flashbulbs

Consolidated

Assets

December 31,	1966	1965 (Note 1)
CURRENT ASSETS:		
Cash	**$ 2,861,012**	$ 6,149,117
Marketable securities	**12,492**	156,979
Accounts and notes receivable (Note 3)	**8,420,316**	6,435,285
Inventories, at cost (first-in, first-out) or market, whichever is lower—primarily merchandise held for resale	**5,532,309**	7,476,339
Prepaid expenses	**597,641**	1,018,371
TOTAL CURRENT ASSETS	**$17,423,770**	$21,236,091
NOTES RECEIVABLE, due after one year (Note 3)	**4,285,541**	855,997
PROPERTY AND EQUIPMENT, at cost:		
Land	**$ 511,967**	$ 541,793
Buildings and building improvements	**2,681,062**	2,549,231
Machinery, furniture and fixtures	**9,844,353**	11,114,303
Leasehold improvements	**3,443,678**	2,548,351
Construction in progress	**575,386**	729,544
	$17,056,446	$17,483,222
Less accumulated depreciation and amortization	**5,878,943**	7,003,182
	$11,177,503	$10,480,040
EXCESS OF COST OVER NET TANGIBLE ASSETS OF BUSINESSES ACQUIRED AND OTHER INTANGIBLES (Note 4)	**9,986,150**	9,756,722
OTHER ASSETS	**762,454**	745,241
	$43,635,418	$43,074,091

Balance Sheet

Liabilities and Shareholders' Equity

December 31,	1966	1965 (Note 1)
CURRENT LIABILITIES:		
Notes payable	**$ 370,100**	$ 4,075,760
Accounts payable	**5,853,053**	6,474,298
Accrued expenses	**1,338,733**	1,091,929
Federal income taxes (Note 5)	**—**	761,414
Current portion of long-term debt	**2,302,981**	2,249,669
TOTAL CURRENT LIABILITIES	**$ 9,864,867**	$14,653,070
LONG-TERM DEBT, due after one year (Note 6):		
Notes and other obligations	**$ 8,747,138**	$ 7,650,371
5½% convertible subordinated debentures	**3,600,000**	3,825,000
	$12,347,138	$11,475,371
DEFERRED INCOME	**339,367**	389,799
DEFERRED INCOME TAXES (Note 5)	**2,134,651**	971,261
RESERVE FOR LOSSES ON LEASED AND DISPOSED OF FACILITIES (Notes 2 and 7)	**1,383,414**	1,188,611
SHAREHOLDERS' EQUITY (Notes 1 and 8):		
Convertible $3.50 cumulative preferred stock, $100 par value; authorized 50,000 shares, 4,402 issued (convertible share for share for common stock)	**$ 440,200**	$ 440,200
Common stock, $1.20 par value; authorized 3,000,000 shares, 1,144,097 and 1,217,181 issued	**1,372,916**	1,460,617
Other capital paid-in	**10,778,119**	12,937,725
Retained earnings	**4,991,829**	7,272,074
	$17,583,064	$22,110,616
In treasury, at cost—242 shares of preferred stock; for 1965, 342,821 shares of common stock (none for 1966—Note 8c)	**17,083**	7,714,637
	$17,565,981	$14,395,979
CONTINGENT LIABILITIES AND LEASES (Notes 2 and 9)		
	$43,635,418	$43,074,091

See notes to financial statements.

Statement of Consolidated Net Income

Year ended December 31,	1966	1965 (Note 1)
Sales (Note 2)	**$45,316,236**	$31,372,638
Cost of sales, excluding depreciation	**29,440,698**	20,769,022
	$15,875,538	$10,603,616
Gross margin on stores disposed of (Note 2)	**4,484,185**	6,160,980
	$20,359,723	$16,764,596
Selling, general and administrative expenses, excluding depreciation	**$15,850,924**	$16,269,486
Depreciation	**1,018,028**	1,125,604
Interest	**987,504**	664,669
Loss on disposition of assets	**—**	811,853
	$17,856,456	$18,871,612
Income (loss) before income taxes	**$ 2,503,267**	$(2,107,016)
Federal, state and local income taxes (Note 5)	**547,992**	828,549
	$ 1,955,275	$ (2,935,565)
Pooled portion of earnings of Hudson and Equality (Note 1) and minority interest in loss of a Perfect Photo subsidiary	**—**	314,179
NET INCOME (LOSS)	**$ 1,955,275**	$(2,621,386)
Number of shares of common stock outstanding	**1,144,097**	874,360
Net income (loss) per share (after preferred stock dividends) (Note 8)	**$1.70**	($3.02)

Statement of Consolidated Retained Earnings

Year ended December 31,	1966	1965 (Note 1)
Balance at beginning of year	**$ 7,272,074**	$10,137,328
Net income (loss) for the year	**1,955,275**	(2,621,386)
	$ 9,227,349	$ 7,515,942
Less:		
Dividends on $3.50 cumulative preferred stock	**$ 14,532**	$ 14,877
Dividends on pooled portion (39%) of Hudson stock for period prior to the merger (Note 1)	**57,248**	228,991
Portion of cost of treasury stock retired applicable to retained earnings	**4,163,740**	—
	$ 4,235,520	$ 243,868
Balance at end of year	**$ 4,991,829**	$ 7,272,074

See notes to financial statements.

Notes to Financial Statements

(1) In June, 1966, the stockholders of Whelan approved a one-for-four reverse split and the issuance of 930,704 shares (after the reverse split) of Whelan stock for all of the assets, subject to the liabilities of Perfect Photo, Inc., Hudson National, Inc. and Equality Plastics, Inc. As Whelan had owned a majority of the outstanding stock of Hudson and Equality, there was a net increase of 564,284 shares of common stock outstanding.

The exchanges are treated for accounting purposes as poolings of interests. Accordingly, the financial statements include all operations of Whelan and Perfect for 1965 and 1966 and all of the operations of Hudson and Equality for 1966. As Whelan had purchased for cash a majority interest in Hudson (which owned a majority interest in Equality) in November, 1965, the 1965 income statement includes all operations of Hudson and Equality from November 23, 1965 to December 31, 1965 and the pooled portion of the earnings of Hudson and Equality (39% and 31%, respectively) for the preceding portion of that year. The consolidated balance sheet includes all companies at both dates.

(2) In the early part of January, 1967, the Corporation sold the inventories of the Charles discount store and all but four Whelan drug-stores to Volume Merchandise, Inc. The sales price was $3,676,000 comprised of $250,000 in cash, accounts and notes receivable of $1,626,000 and assumption of $1,800,000 of accounts payable. Notes of $950,000 are payable over 28 months beginning November, 1968 and accounts receivable of $676,000 are payable monthly to August 1, 1967. In addition, subsidiaries and affiliates of Volume Merchandise, Inc. have obligated themselves, without guarantee by Volume Merchandise, Inc., to make payments aggregating $1,338,000 for the fixtures of the above stores [including leasehold improvements] over a ten-year period from January, 1967. Effect has been given to these transactions in the accompanying statements.

The aggregate consideration is $300,000 in excess of the carrying value of the assets disposed of. The Corporation remains liable under the leases for the stores it formerly operated, but Volume Merchandise, Inc. has the option of assuming any of the leases at any time and must assume and guarantee a lease when an option to renew is exercised. Volume Merchandise, Inc., its subsidiaries or affiliates (hereafter referred to as Volume), have the option to stop rent and fixture payments for any store. If Volume does not pay the rent for any store or does not make a payment for the fixtures, the Corporation has the right to cancel the transaction for the fixtures. In that event, Volume must remove the inventory and convey the premises (for which they had not assumed leases) to Whelan.

The amount of the consideration over carrying value of assets disposed of has not been taken into income, pending such time as the management of the Corporation determines that there would be no loss (presently determined to be not in excess of the amount deferred) if the transaction were to be canceled. Such amount has been included in the Reserve for losses on leased and disposed of facilities.

The four Whelan stores not sold were closed and the Corporation no longer operates drug or discount stores.

The operations disposed of had sales of $18,519,518 and $28,722,759 and cost of sales of $14,035,333 and $22,561,779 in 1966 and 1965, respectively. It is not practicable to allocate administrative expenses to those operations.

The annual rentals for stores disposed of, for which the Corporation remains contingently liable, are approximately as follows:

1967-1968	$950,000
1969-1970	700,000
1971	600,000
1972-1976	450,000
1977-1987	150,000

(3) Accounts and notes receivable due within one year comprise:

	December 31, 1966	December 31, 1965
Trade receivables	$6,549,806	$5,536,734
Due from Volume Merchandise, Inc. (Note 2)	1,185,297	385,507
Due from subsidiaries and affiliates of Volume Merchandise, Inc. (Note 2)	133,800	–
Notes receivable for stock sold under Employees Stock Purchase Plans (Note 8)	604,553	123,701
Advances to employees	39,772	–
Other	380,760	903,236
	$8,893,988	$6,949,178
Allowance for uncollectible amounts	473,672	513,893
	$8,420,316	$6,435,285
Long-term receivables are as follows:		
Due from Volume Merchandise, Inc. (Note 2)	$1,240,056	$ 706,763
Due from subsidiaries and affiliates of Volume Merchandise, Inc. (Note 2)	1,204,200	–
Notes receivable for stock sold under Employees Stock Purchase Plans (Note 8)	1,785,644	74,000
Other	55,641	75,234
	$4,285,541	$ 855,997

(4) Intangibles at December 31, 1966 comprise:

Excess of cost over net tangible assets acquired of Hudson National, Inc. and Equality Plastics, Inc.	$3,388,079
Perfect Photo, Inc.'s customer lists, trade names, trademarks and goodwill from acquisitions:	
Consolidated Photographic Industries, Inc.	1,268,949
Griffith Group	1,313,833
Other acquisitions	3,873,294
Other	141,995
	$9,986,150

In November, 1965 Whelan purchased for cash, 61% of the common stock of Hudson National, Inc. (including Equality Plastics, Inc.) for approximately $4,900,000.

The intangibles of Perfect Photo, Inc. relate to many acquisitions from 1960 through 1966 for both cash and stock.

In the opinion of management, there is no present indication that the intangible assets have a limited or readily determinable life and, in accordance with generally accepted accounting principles, no amortization is contemplated at this time. If at any time in the future it becomes reasonably evident that these intangibles have a limited existence, the cost of such intangibles will be written off by amortization or otherwise as appropriate.

(5) As a result of tax loss carryforwards, the Corporation will not be required to provide federal income taxes of approximately $800,000 which otherwise would have been necessary for the year ended December 31, 1966. A federal income tax provision of $250,000 was made for Perfect, Hudson, and Equality for the period prior to acquisition by Whelan. As of December 31, 1966, Whelan had approximately $3,500,000 of future tax deductions available to offset future income over substantially the four years ending December 31, 1970.

Deferred income taxes, including state and local taxes of $200,000, represent taxes deferred primarily as a result of accelerated depreciation of Perfect Photo, Inc.

The Internal Revenue Service has accepted the Company's treatment of the post-acquisition losses of Crawford Clothes, Inc. for 1959, 1960 and 1961, eliminating the proposed disallowance of $2,000,000 discussed in prior reports.

Federal, state and local income taxes for 1965 include federal income taxes of $578,549 for Perfect Photo, Hudson and Equality.

Notes to Financial Statements . . . *continued*

(6) Long-term debt due after one year:

	December 31, 1966	December 31, 1965
Five-year notes to banks (a)	$ 4,600,000	$ —
Exchanged in 1966 for five-year notes:		
6% three-year notes to banks	—	3,000,000
6% notes to bank	—	500,000
6½% notes to insurance companies due $200,000 annually starting 1970 (b)	2,000,000	2,000,000
Amounts due for acquisitions, payable in varying amounts to 1985	854,240	1,029,949
Rents under leases on non-productive facilities and payments to former employees under employment contracts, due in varying amounts to 1975	354,001	528,363
5% to 6% mortgage loans due monthly to 1979	216,755	372,732
Other, primarily equipment notes	722,142	219,327
	$ 8,747,138	$ 7,650,371
5½% convertible subordinated debentures, due 1980 (c)	3,600,000	3,825,000
	$12,347,138	$11,475,371

(a) The five-year bank promissory notes are payable $287,500 quarterly, starting March 15, 1967, plus interest at 2% in excess of the prime commercial loan rate, and provide, among other matters, that the Corporation shall:

(1) Maintain consolidated working capital of $7,500,000.

(2) Maintain capital funds (defined as tangible net worth, plus subordinated debt, less the Whelan stock purchase plan receivables) of $9,500,000. In addition to the 5½% subordinated convertible debentures, the Corporation has $993,000 of other subordinated long-term debt. Also, total liabilities excluding subordinated indebtedness are not to exceed such capital funds by more than 250%.

(3) Not acquire property or equipment (as defined) in any one year in excess of $1,200,000.

(4) Not pay cash dividends or acquire equity investments after December 31, 1966 which, combined, would exceed twenty-five per cent of its net income after December 31, 1966 plus $120,000.

(5) Pay to the banks as payment of the notes as they mature, the net proceeds from (i) the Volume notes receivable, (ii) the Whelan Employees Stock Purchase Plan, and (iii) the sale of more than four stores in any year. In addition Whelan must apply ratably in reduction of the total, the proceeds from the sale if made, of the Corporation's property at 89 Seventh Avenue, New York, N. Y. The Corporation's ability to borrow, make loans, acquire businesses, sell property, etc., is restricted.

Amounts of $1,657,000 due from Volume Merchandise, Inc. and subsidiaries, and land and buildings with a book value of $630,391, are pledged under these loans. In addition, the banks may request additional collateral including (without limitation) security agreements, pledges and/or assignments with respect to property and assets of the Corporation as may be designated by the banks.

(b) The agreements for the insurance companies' loans, among other things, require that the Corporation maintain (i) a ratio of current assets to current liabilities of 1.65 to 1.00 to March 31, 1967, 1.80 to 1.00 from April 1, 1967 to March 31, 1968 and 2.00 to 1.00 after April 1, 1968, and (ii) various other restrictions which are the same or less restrictive than those described in (a) above.

(c) The 5½% convertible subordinated debentures are redeemable in whole or in part at the Corporation's option at 103 to September 30, 1967 and at reduced amounts thereafter. At December 31, 1966, the conversion ratio (which is subject to antidilution adjustment) was 20.72 shares of common stock for each $1,000 debenture. The indenture provides that on October 1, 1967 and annually thereafter to 1979, the Corporation will retire $225,000 principal amount of the debentures. As of December 31, 1966, the Corporation and a subsidiary owned $190,000 face amount of the debentures, which have been eliminated from the financial statements.

(7) During the year, $105,197 of losses (net of sub-rentals) applicable to leases on locations where operations had been discontinued in prior years, were charged to this reserve. In 1966, $300,000 was provided for stores disposed of, as explained in Note 2.

(8) (a) Under the Employees Stock Purchase Plans adopted in January, 1966, 269,737 shares of the Corporation's stock were sold to employees around September 1, 1966 at $8.375 to $9.50 per share. Payments are due over ten years at 4% interest and stock is held as collateral for unpaid amounts. If this stock had not been issued, earnings per share would have been approximately $.50 higher. Employees who are not directors or officers of the Corporation or subsidiaries, may require the Corporation to acquire shares at issue price for unpaid notes. At December 31, 1966, approximately $775,000 was due from such employees. (Directors and officers do not have this option.)

(b) At December 31, 1966, the following common shares were reserved for:

	Shares
Conversion of preferred stock	4,160
Employees' stock option plans of Perfect Photo (all exercisable at $17.65-$28.24)	5,206
Warrants of Perfect Photo	85,000*
Conversion of subordinated debentures (Note 6c)	75,317
	169,683

*Warrants for 21,250 shares are exercisable at $18.82 until September, 1969, and 63,750 are exercisable at increasing amounts from $18.82 to $28.23 until 1979.

On January 6, 1967, the Board of Directors declared a 3% stock dividend payable March 1, 1967. Common share figures have not been adjusted for the dividend.

(c) The changes in other capital paid in were as follows:

Balance at beginning of year for Whelan, as reported	$ 6,361,411
Excess of pooled paid-in capital of Perfect Photo, Hudson and Equality over par value of Whelan stock exchanged, less merger costs (Note 1)	5,872,750
Excess of amounts receivable for stock sold under Employees Stock Purchase Plan over par value (Note 8a)	1,941,397
	$14,175,558
Less cost of 342,821 shares of common stock in treasury retired (including 76,050 shares retired on January 7, 1967), less par value and portion applicable to retained earnings	3,397,439
Balance at end of year	$10,778,119

(9) (a) A civil action against Perfect Photo of $2,250,000 filed by a former stockholder in July, 1963, discussed in prior reports, was settled in 1966 for $7,500.

(b) As of December 31, 1966, a subsidiary of Whelan was guarantor on open letters of credit of $551,000.

(c) The Corporation has 72 leases on real property being utilized which expire at various dates to 1987. Under such leases annual rentals are approximately as follows:

1967	$520,000
1968	430,000
1969	370,000
1970	330,000
1971	220,000
1972-1976	160,000
1977-1987	20,000

Auditors' Report

TOUCHE, ROSS, BAILEY & SMART

80 PINE STREET
NEW YORK, 10005

February 20, 1967.

Board of Directors,
United Whelan Corporation,
Manhasset, New York.

We have examined the accompanying consolidated balance sheet of United Whelan Corporation and subsidiaries as of December 31, 1966, and the related statements of consolidated net income and of consolidated retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practicable to confirm certain amounts receivable from retail stores, but we satisfied ourselves as to such amounts by means of other auditing procedures.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of United Whelan Corporation and subsidiaries at December 31, 1966, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche, Ross, Bailey & Smart
Certified Public Accountants.

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